

Upper Cumberland Community Services Agency

**For the Year Ended
June 30, 1999**

Arthur A. Hayes, Jr., CPA, JD, CFE

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Edward Burr, CPA

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www.comptroller.state.tn.us.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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August 9, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Upper Cumberland Community Services Agency
417 East Broad Street
Cookeville, Tennessee 38501

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Upper Cumberland Community Services Agency for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Upper Cumberland Community Services Agency
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Upper Cumberland Community Services Agency
For the Year Ended June 30, 1999

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Upper Cumberland Community Services Agency For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Upper Cumberland Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Upper Cumberland Community Services Agency serves the following counties: White, Jackson, Putnam, Macon, Warren, Cannon, Fentress, Pickett, Smith, Cumberland, Dekalb, Overton, Van Buren, and Clay. The agency’s administrative offices are in Cookeville, Tennessee.

The governing body of the Upper Cumberland Community Services Agency is the board of directors. As of June 30, 1999, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of 3 board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Upper Cumberland Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, and contracts;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

As noted in the prior audit, the Upper Cumberland Community Services Agency has entered into a contract with the Department of Children's Services, specifying that the community services agency (CSA) would assist in implementing various state programs. However, the department's participation in this contract was greater than indicated in the contract. Through this contract, state officials directly supervised CSA employees. And although these CSA

employees' salaries, travel costs, and other program costs were paid by the CSA, the Department of Children's Services reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. This contract appears to create "employer-employee" relationships between the department and these individuals.

Programs under the supervision of the Department of Children's Services included Child Protective Services, Adoption Assistance, Foster Care, Juvenile Justice Services, and Family Crisis Intervention. According to the CSA organization chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services supervisors. Some of these CSA employees were secretaries for the department's regional administrative staff.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Department of Children's Services, in carrying out what can be construed as state programs, raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. *Tennessee Code Annotated*, Section 37-5-314, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, *Tennessee Code Annotated*, Section 37-5-315(2), states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors." This legal concern arises from the legislative intent that the department not create an employer-employee relationship with community services agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include Department of Children's Services' ability to direct and control the work of CSA employees it supervises. These relationships also create inherent problems for the Department of Children's Services supervisory personnel in that they have less direct control over the performance of CSA case managers.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer and costs of travel, supplies, and equipment used by the administrative staff.

The most recent audit on the Department of Children's Services includes an audit finding on these inappropriate contracts with the Upper Cumberland Community Services Agency and other CSAs serving the department.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Upper Cumberland Community Services Agency's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Upper Cumberland Community Services Agency's financial statements.



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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

March 2, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated March 2, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the Upper Cumberland Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable John G. Morgan
March 2, 2000
Page Two

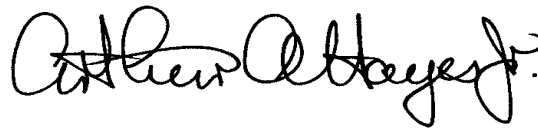
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Upper Cumberland Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We did note other matters involving the internal control over financial reporting that we have reported to the Upper Cumberland Community Services Agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb



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Independent Auditor's Report

March 2, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying combined balance sheets of the Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Cumberland Community Services Agency as of June 30, 1999, and June 30, 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

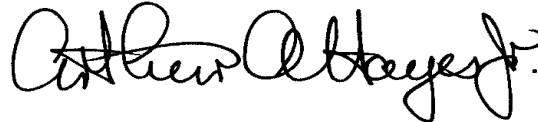
As discussed in Note 13, the Upper Cumberland Community Services Agency changed its equipment capitalization policy.

The Honorable John G. Morgan
March 2, 2000
Page Two

The Schedule of Pension Funding Progress for Upper Cumberland Community Services Agency is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2000, on our consideration of Upper Cumberland Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb

UPPER CUMBERLAND COMMUNITY SERVICES AGENCY
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999					June 30, 1998				
	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals
	General Fund	Expendable Trust Fund	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)	General Fund	Expendable Trust Fund	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
<u>Assets and other debit</u>										
Assets:										
Cash (Note 2)	\$ 281,112.74	\$ 137.51	\$ -	\$ -	\$ 281,250.25	\$ 136,134.34	\$ 144.25	\$ -	\$ -	\$ 136,278.59
Prepaid items	540.60	-	-	-	540.60	576.78	-	-	-	576.78
Accounts receivable	1,408.32	-	-	-	1,408.32	13,287.22	-	-	-	13,287.22
Due from primary government (Note 3)	101,162.63	-	-	-	101,162.63	235,089.43	-	-	-	235,089.43
General fixed assets (Note 4):										
Furniture and equipment	-	-	75,566.89	-	75,566.89	-	-	96,606.38	-	96,606.38
Lease equipment	-	-	6,329.00	-	6,329.00	-	-	35,105.00	-	35,105.00
Other debit:										
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	-	55,159.44	55,159.44	-	-	-	58,600.48	58,600.48
Total assets and other debit	<u>\$ 384,224.29</u>	<u>\$ 137.51</u>	<u>\$ 81,895.89</u>	<u>\$ 55,159.44</u>	<u>\$ 521,417.13</u>	<u>\$ 385,087.77</u>	<u>\$ 144.25</u>	<u>\$ 131,711.38</u>	<u>\$ 58,600.48</u>	<u>\$ 575,543.88</u>
<u>Liabilities, other credit, and fund balance</u>										
Liabilities:										
Accounts payable	\$ 16,172.60	\$ -	\$ -	\$ -	\$ 16,172.60	\$ 29,469.51	\$ -	\$ -	\$ -	\$ 29,469.51
Accrued payroll	84,029.41	-	-	-	84,029.41	82,858.05	-	-	-	82,858.05
Accrued payroll taxes and benefits	6,245.30	-	-	-	6,245.30	6,150.03	-	-	-	6,150.03
Accrued annual leave (Note 5)	-	-	-	49,126.80	49,126.80	-	-	-	54,733.29	54,733.29
Capital lease obligation	-	-	-	6,032.64	6,032.64	-	-	-	3,867.19	3,867.19
Due to primary government (Note 3)	62,178.53	-	-	-	62,178.53	107,214.57	-	-	-	107,214.57
Due to local government	93,728.34	-	-	-	93,728.34	69,371.00	-	-	-	69,371.00
Due to other CSA	-	-	-	-	-	83.41	-	-	-	83.41
Deferred revenue	3,750.00	-	-	-	3,750.00	22,500.00	-	-	-	22,500.00
Member deposits	-	137.51	-	-	137.51	-	144.25	-	-	144.25
Total liabilities	<u>266,104.18</u>	<u>137.51</u>	<u>-</u>	<u>55,159.44</u>	<u>321,401.13</u>	<u>317,646.57</u>	<u>144.25</u>	<u>-</u>	<u>58,600.48</u>	<u>376,391.30</u>
Other credit:										
Investment in general fixed assets (Note 4)	-	-	81,895.89	-	81,895.89	-	-	131,711.38	-	131,711.38
Fund balance:										
Reserved for prepaid items	540.60	-	-	-	540.60	576.78	-	-	-	576.78
Unreserved	117,579.51	-	-	-	117,579.51	66,864.42	-	-	-	66,864.42
Total other credit and fund balance	<u>118,120.11</u>	<u>-</u>	<u>81,895.89</u>	<u>-</u>	<u>200,016.00</u>	<u>67,441.20</u>	<u>-</u>	<u>131,711.38</u>	<u>-</u>	<u>199,152.58</u>
Total liabilities, other credit, and fund balance	<u>\$ 384,224.29</u>	<u>\$ 137.51</u>	<u>\$ 81,895.89</u>	<u>\$ 55,159.44</u>	<u>\$ 521,417.13</u>	<u>\$ 385,087.77</u>	<u>\$ 144.25</u>	<u>\$ 131,711.38</u>	<u>\$ 58,600.48</u>	<u>\$ 575,543.88</u>

The Notes to the Financial Statements are an integral part of this statement.

UPPER CUMBERLAND COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	General Fund	
	For the Year Ended June 30, 1999	For the Year Ended June 30, 1998
<u>Revenues</u>		
State contracts	\$ 2,004,099.79	\$ 2,049,891.34
Federal contracts	160,551.35	180,655.30
Private contracts	48,750.00	42,700.66
TennCare Transportation contracts	168,410.37	161,071.98
Interest Income	12,895.21	12,859.26
In-kind contributions	78,319.65	29,861.17
Other Income	2,388.27	263.73
Total revenues	<u>2,475,414.64</u>	<u>2,477,303.44</u>
<u>Expenditures</u>		
Salaries and wages	1,275,663.23	1,304,309.74
Employee benefits and payroll taxes	340,063.96	348,597.89
Professional fees	57,709.24	97,216.86
Supplies	49,309.39	52,639.24
Telephone	51,138.49	51,643.79
Postage and shipping	11,006.66	10,459.59
Occupancy	69,270.16	73,945.51
Equipment rental and maintenance	53,700.21	78,070.36
Printing and publications	6,953.81	10,315.36
Travel	105,359.93	110,620.34
Conferences and meetings	25,201.47	12,708.38
Insurance	-	225.00
Grants and awards	217,965.74	210,432.58
Specific assistance to individuals	56,271.99	62,126.69
Capital purchases	15,657.18	10,837.85
Capital lease principal	4,167.18	7,614.82
Capital lease interest	364.42	1,109.98
In-kind expenditures	78,319.65	29,861.17
Other	6,613.02	1,138.97
Total expenditures	<u>2,424,735.73</u>	<u>2,473,874.12</u>
Excess of revenues over expenditures	<u>50,678.91</u>	<u>3,429.32</u>
Fund balance, July 1	<u>67,441.20</u>	<u>64,011.88</u>
Fund balance, June 30	<u>\$ 118,120.11</u>	<u>\$ 67,441.20</u>

The Notes to the Financial Statements are an integral part of this statement.

Upper Cumberland Community Services Agency
Notes to the Financial Statements
June 30, 1999, and June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Upper Cumberland Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget).

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the Upper Cumberland Community Services Agency are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

The general fund is presented using the flow of current financial resources measurement focus.

The agency’s accounts are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency’s financial activities reported in the accompanying statements are classified into two fund types and two account groups:

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

Governmental Fund Type

General Fund—used to account for all resources not accounted for in another fund.

Fiduciary Fund Type

Expendable Trust Fund—used to account for activities of employee flexible benefit trusts whose principal and income may be used for the purposes of the trust.

Account Groups

General Fixed Assets Account Group (GFAAG)—used to account for all the agency's fixed assets. The GFAAG is not a fund, but rather a management control and accountability listing of the agency's general fixed assets.

General Long-Term Obligations Account Group—used to account for capital leases and annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency's noncurrent liabilities.

Totals (Memorandum Only)

The total columns of the combined balance sheets are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 2. DEPOSITS

The Upper Cumberland Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Upper Cumberland Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1999

Due From:

Department of Health—program funds	\$ 33,623.70
Department of Children's Services—program funds	61,041.85
Department of Finance and Administration— Americorps	6,057.37
Local Government Group Insurance	439.71
Total due from primary government	<u>\$101,162.63</u>

Due To:

Department of Health—Office of Vital Records	\$ 25.00
Department of the Treasury—retirement contributions	5,846.30

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

Department of Employment Security–unemployment taxes	575.79
Comptroller of the Treasury–audit fees	16,660.15
Department of Finance and Administration– Office for Information Resources	<u>39,071.29</u>
Total due to primary government	<u><u>\$ 62,178.53</u></u>

June 30, 1998

Due From:	
Department of Health–program funds	\$ 64,749.05
Department of Children’s Services–program funds	<u>170,340.38</u>
Total due from primary government	<u><u>\$ 235,089.43</u></u>

Due To:	
Department of Health–Office of Vital Records	\$ 20.00
Local Government Group Insurance	263.60
Department of Children’s Services–training	16,006.00
Comptroller of the Treasury–audit fees	19,197.42
Department of Employment Security–unemployment taxes	367.76
Department of the Treasury–retirement contributions	6,023.79
Department of Finance and Administration– Americorp Funds	4.10
Department of Finance and Administration– Office for Information Resources (telephone usage)	<u>65,331.90</u>
Total due to primary government	<u><u>\$107,214.57</u></u>

NOTE 4. GENERAL FIXED ASSETS

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at estimated fair value at the date of the donation.

The following changes in general fixed assets occurred during the year ended June 30, 1999:

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1999</u>
Furniture and equipment	\$ 96,606.38	\$14,512.19	\$35,551.68	\$75,566.89
Leased equipment	<u>35,105.00</u>	<u>6,329.00</u>	<u>35,105.00</u>	<u>6,329.00</u>
Total	<u>\$131,711.38</u>	<u>\$20,841.19</u>	<u>\$70,656.68</u>	<u>\$81,895.89</u>

The following changes in general fixed assets occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
Furniture and equipment	\$105,366.68	\$10,837.85	\$19,598.15	\$ 96,606.38
Leased equipment	<u>35,105.00</u>	<u>-</u>	<u>-</u>	<u>35,105.00</u>
Total	<u>\$140,471.68</u>	<u>\$10,837.85</u>	<u>\$19,598.15</u>	<u>\$131,711.38</u>

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1999:

	<u>Balance</u> <u>July 1, 1998</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 1999</u>
Amount to be provided for retirement of general long-term obligations	<u>\$58,600.48</u>	<u>\$2,165.45</u>	<u>\$5,606.49</u>	<u>\$55,159.44</u>

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

Accrued annual leave	\$54,733.29	\$ -	\$5,606.49	\$49,126.80
Capital lease obligations	<u>3,867.19</u>	<u>2,165.45</u>	<u>-</u>	<u>6,032.64</u>
Total general long-term obligations	<u>\$58,600.48</u>	<u>\$2,165.45</u>	<u>\$5,606.49</u>	<u>\$55,159.44</u>

The following changes in general long-term obligations occurred during the year ended June 30, 1998:

	<u>Balance July 1, 1997</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 1998</u>
Amount to be provided for retirement of general long-term obligations	<u>\$56,643.73</u>	<u>\$1,956.75</u>	<u>\$ -</u>	<u>\$58,600.48</u>
Accrued annual leave	\$45,161.72	\$9,571.57	\$ -	\$54,733.29
Capital lease obligations	<u>11,482.01</u>	<u>-</u>	<u>7,614.82</u>	<u>3,867.19</u>
Total general long-term obligations	<u>\$56,643.73</u>	<u>\$9,571.57</u>	<u>\$7,614.82</u>	<u>\$58,600.48</u>

NOTE 6. OPERATING LEASES

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$65,359.82 and \$12,952.92 for the year ended June

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

30, 1999, and were \$70,162.92 and \$9,971.46 for the year ended June 30, 1998. The leases were cancelable at the lessee's option.

In addition, the State of Tennessee has entered into cancelable lease agreements for space and equipment on behalf of the agency. The agency reimburses the state for these lease payments each month. Total reimbursements to the state for operating leases were \$39,071.29 for the year ended June 30, 1999, and were \$65,331.90 for the year ended June 30, 1998. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

NOTE 7. CAPITAL LEASES

The agency has certain lease agreements in effect that are considered capital leases. These agreements have beginning and ending dates ranging from April 1, 1999, to June 30, 2003, and imputed interest rates ranging from 10.57% to 11.86%. The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments at June 30, 1999:

1999-2000	\$1,872.00
2000-2001	1,872.00
2001-2002	1,872.00
2001-2003	<u>1,872.00</u>
Total minimum lease payments	7,488.00
Less amounts representing interest	<u>1,455.36</u>
Present value of net minimum lease payments	<u>\$6,032.64</u>

The total value of equipment capitalized under these lease agreements is reported at \$6,329.00 in the General Fixed Assets Account Group at June 30, 1999.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 8. DEFINED BENEFIT PENSION PLAN

A. Plan Description

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-8202.

B. Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a non-contributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 7.27% of annual covered payroll. The agency contributed \$85,109.67 for the year ended June 30, 1999. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

The agency's annual pension cost of \$85,109.67 for fiscal year 1999 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1997, actuarial valuation using the frozen initial liability actuarial cost method, a

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's most recent benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period. Amortized book value is used for fixed-income securities.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1999	\$85,109.67	100%	—
June 30, 1998	\$88,480.70	100%	—
June 30, 1997	\$87,264.78	100%	—

NOTE 9. CONTINGENCIES

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$53,918.07 at June 30, 1999, and \$73,419.80 at June 30, 1998.

NOTE 10. DONATED FACILITIES

The Departments of Children's Services and Health donate office space, utilities, telephone service, copiers, and computer use and computers to the Upper Cumberland Community Services Agency. The value of the donation is not recorded in the financial statements.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 11. RISK MANAGEMENT

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

- A. The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- B. The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.
- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee, or United Health Care. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee or United Health Care.

NOTE 12. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended June 30, 1999, the threshold for capitalizing equipment was increased from \$500 to \$1,000. This change in accounting principle resulted in a decrease in equipment of \$9,828.47.

NOTE 13. PRIOR PERIOD RESTATEMENT

The June 30, 1998, comparative financial statements have been restated to eliminate the Internal Revenue Code (IRC) 457 Deferred Compensation Plan agency fund. The plan was in compliance with the revisions to IRC Section 457 prior to June 30, 1998. These revisions require that all assets and income of the 457 plan be held in trust for the exclusive benefit of the participants and their beneficiaries rather than remaining the property of the CSA as previously required. Governmental Accounting Standards Board Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, rescinded the requirement to account for the plan assets in an agency fund of the employer.

**Upper Cumberland Community Services Agency
Required Supplementary Information
Schedule of Pension Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/97	\$890,108	\$890,108	—	100%	\$1,168,205.27	—

Information is shown only for the year available. Additional years will be shown as they become available.

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, to establish contribution rates as of July 1, 1998. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's most recent benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period.

APPENDIX

UPPER CUMBERLAND COMMUNITY SERVICES AGENCY

Sue Standifer, Executive Director

BOARD OF DIRECTORS

Board Officers

Dr. James Smith, Chairman
Walteen Parker, Vice-Chairperson
Chris McCall, Secretary

Executive Committee Members

Dr. James Smith, Chairman
Walteen Parker, Vice-Chairperson
Chris McCall, Secretary

Other Members of the Board of Directors

Glennis Bassi
Carolyn Fox
Lillian Fox
Howard Groce
Byron Houston
William Johnson
John Hubert Little
Nolan Northcutt
Ben Sparkman
Gladys Swindle